

Viewpoints from the Banking Industry on Small Business Access to Credit and Capital

Legislative Research Commission - Committee on
Barriers to Small Business Access to Credit and Capital

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Bankers Association



North Carolina Bankers Association

Quick Profile on the Banking Industry in North Carolina

- 95 commercial banks and savings institutions (includes savings banks as well as savings and loan associations) headquartered or with branches in North Carolina
 - Each is a member of the North Carolina Bankers Association
- 2,528 branches statewide by commercial banks and savings institutions, not counting loan production offices, general office and operations centers, and ATMs
 - Using last available statistics published by the FDIC (as of June 30, 2015)



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Perspective on Small Business

- Small businesses make up about 99 percent of U.S. employer firms and 63 percent of net new private-sector jobs in our economy (according to [U.S. SBA Office of Advocacy](#))
- Banks want to make every responsible loan possible to help creditworthy small businesses.
- The economic environment today is uneven for small businesses, although it has gradually improved over the last eight years. As a result, more small businesses are in a position to obtain credit – in general, they have healthier balance sheets and cash flow.



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Perspective on Small Business (Continued)

- Banks offer a variety of credit solutions to meet the needs of small businesses.
 - These may include such options as:
 - lines of credit
 - term loans
 - commercial real estate loans
 - equipment financing
 - vehicle loans and leases
 - business credit cards



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Perspective on Small Business (Continued)

- Banks also partner with government agencies and non-profits to meet the needs of small businesses when credit enhancements are needed or direct lending is not possible.
- Examples:
 - Small Business Administration
 - NC Rural Center
 - The Support Center



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Perspective on Small Business (Continued)

- While the economic environment has slowly improved, many small businesses are not experiencing significant growth. Before pursuing financing for their businesses, these business owners are seeking more sales growth and a specific need.
- Over the last eight years, business owners have used excess funds to pay down debt improve their financial position.
- We are seeing some evidence that this is gradually changing. Customers who are obtaining new business loans today are using credit for business needs, improving credit utilization rates and helping offset those businesses that are paying down existing loans.



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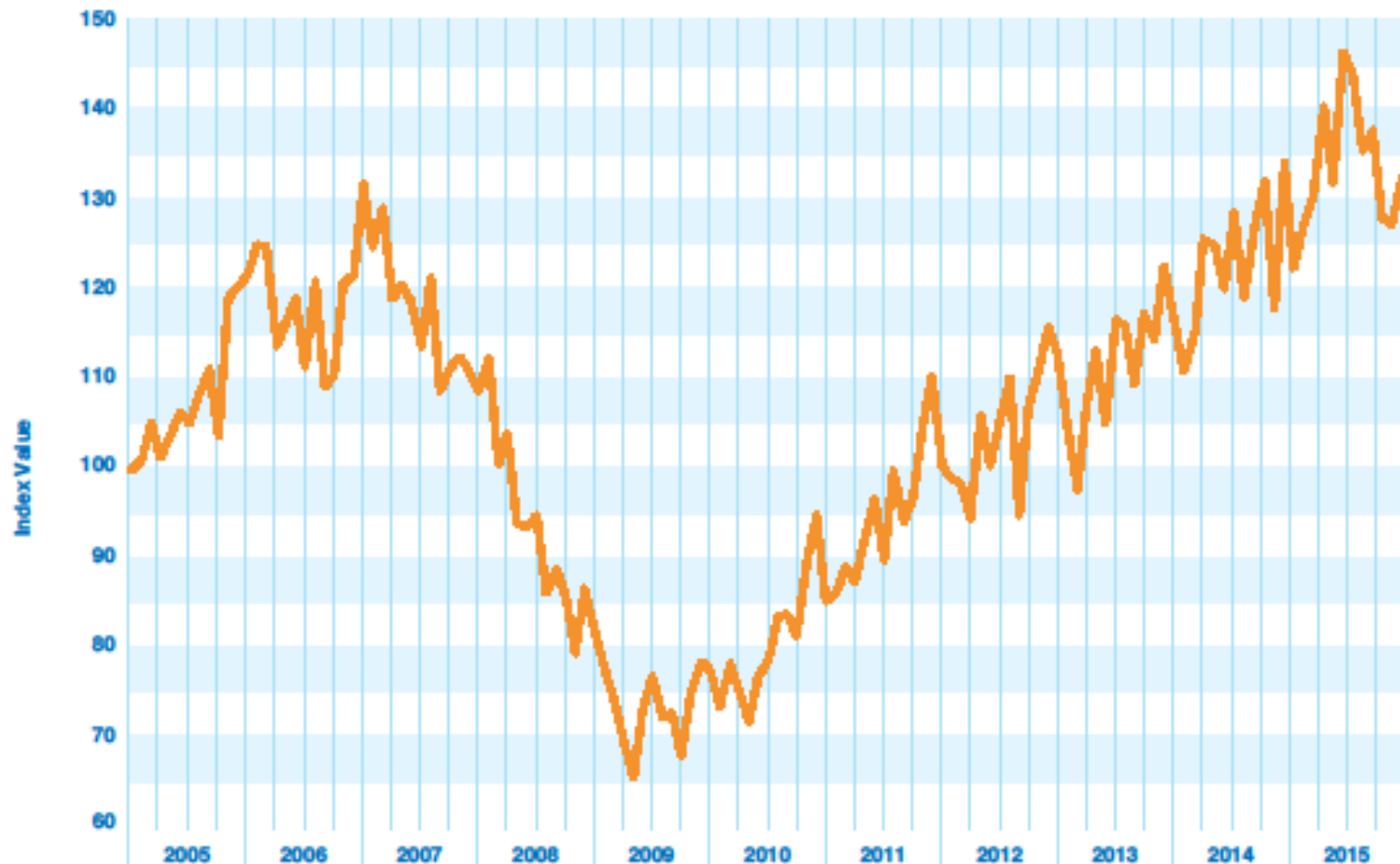
Industry Trends

- The following graphs provide insight on small business loan volume nationwide over the past decade.



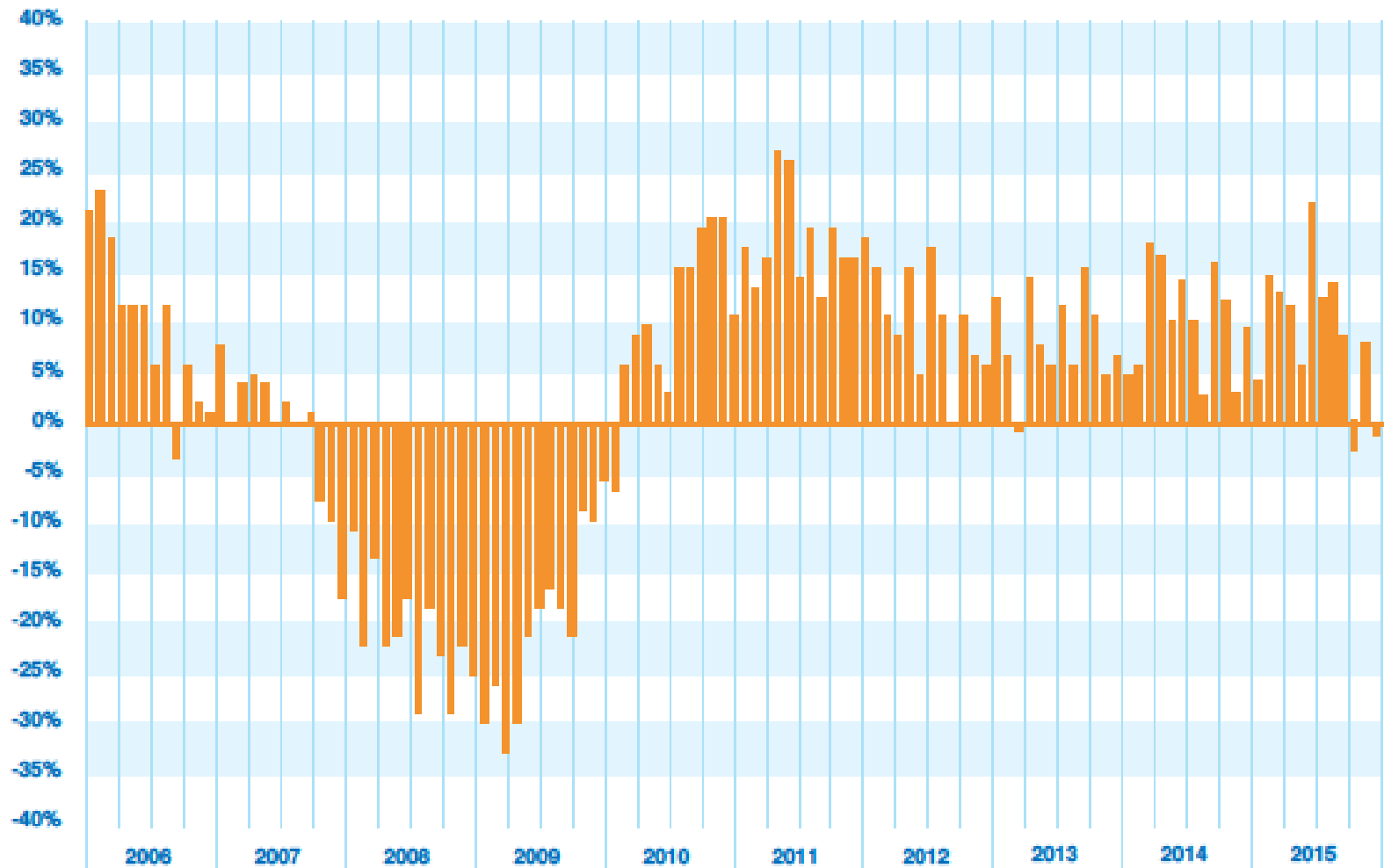
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Thomson Reuters/PayNet Small Business Lending Index (SBLI) (January 2005 - December 2015)



The Small Business Lending Index (SBLI) measures the volume of small business loans issued over the past 30 days and are based on the most recent data from the largest commercial and industrial lenders in PayNet's U.S. database, including both loans and leases.

Thomson Reuters/PayNet SBLI Year-Over-Year Change (January
2006 - December 2015)



Selected Viewpoints from Bankers

- Many small businesses lack sufficient equity and/or collateral to start or expand their businesses. In evaluating risk, banks frequently focus on an asset coverage ratio to assure a secondary source of repayment. This sometimes results in a business unable to obtain a loan, even though they have sufficient cash flow to repay.
- To overcome this collateral shortfall, government-guaranteed lending programs are sometimes an option. An example is the SBA 7(a) program (as noted in an earlier slide), which provides a 75% guarantee in the event of nonpayment by the borrower.



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Selected Viewpoints from Bankers (Continued)

- As an example of the use of SBA programs, a bank is currently financing chicken farms as part of a major poultry producer's expansion in North Carolina. Through the use of these programs, the bank is allowing young farmers (who do not have large farms already) to get into chicken farming with minimal equity.
- These farmers would otherwise not be able to earn $\frac{1}{2}$ of what they will from these farms given the limited job opportunities in these low and moderate income (LMI) markets. The cash flow of these farms is stable and strong, and we understand that many of the customers cry at the loan closing because they are achieving a bright economic future for their families.



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Selected Viewpoints from Bankers (Continued)

- While there are certainly encouraging signs, loan demand is commensurate with local market conditions and these can vary across the state. Pricing and structure remain under pressure across many segments of commercial lending principally due to low levels of new business activity and excess capacity among lenders.
- Total demand is tepid by historical standards during a recovery period, as reflected in the 1.5-2% real GDP growth in the last ten years.



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Selected Viewpoints from Bankers (Continued)

- Small Business optimism stalled during the past quarter after several periods of increases. Primary drivers continue to be uncertainty around long term taxation and health care costs. The political environment is very uncertain and business owners are concerned about new regulations.
- Small Businesses are beginning to make or plan capital expenditures but not nearly at historical levels, and the increase in borrowing remains below the capital investments (per National Federation of Independent Business (NFIB) survey).
- From an industry perspective, deposits remain high for small business clients, indicating an ability to use cash in lieu of borrowing. A recent NFIB survey reported 57% of business owners stated they did not want to borrow.



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Regulatory Hurdles

- Taxes and regulation (e.g., minimum wage increases, healthcare costs, etc.) on small business are limiting business expansion opportunities.
- Increased oversight and documentation requirements by federal regulators make it more difficult for banks to lend on a profitable basis.
- Accounting and reporting requirements sometimes limit a bank's flexibility to work with struggling borrowers in periods of stress.



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What North Carolina Can Do

- It is critically important to maintain the viability of the state banking charter as an alternative to the federal banking charter.
 - The North Carolina General Assembly did excellent work in 2012 in modernizing the state's banking laws and again in recent years in simplifying the tax code for banks and other businesses.
- Support the work of the Office of the Commissioner of Banks. Commissioner of Banks Ray Grace has shown strong leadership at the state and national levels. He and his staff serve as a counterbalance to federal overreach.
- Continue to promote a positive environment for businesses to operate in by limiting legislative and regulatory changes year to year so that businesses have predictability.



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Questions?

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